

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE REVENUE)	
REQUIREMENTS OF INTERLATA ACCESS)	CASE NO. 89-254
SERVICES OF GTE SOUTH INCORPORATED)	

O R D E R

On November 1, 1989, the Commission issued an Order initiating this proceeding for the purpose of establishing a more current interLATA access revenue requirement for GTE South Incorporated's ("GTE South") Kentucky operations. This was a result of concerns expressed in the August 3, 1989 Order in Case No. 10117,¹ that the continued use of an interLATA revenue requirement based on 1984 access revenues may no longer be appropriate in view of the overall increases to GTE South's revenue requirements. Accordingly, GTE South was directed to file an interLATA cost-of-service study subject to the criteria that total revenues should not exceed the total revenue requirement authorized in Case No. 10117. GTE South filed its initial study on December 1, 1989.

On November 6, 1989, the Attorney General of the Commonwealth of Kentucky ("AG"), by and through his Utility and Rate Intervention Division, filed a motion to intervene. This motion was granted on November 16, 1989. On November 15, 1989, AT&T

¹ Case No. 10117, Adjustment of Rates of GTE South Incorporated.

Communications of the South Central States, Inc. ("AT&T") filed to intervene and on November 20, 1989, MCI Telecommunications Corporation ("MCI") also filed to intervene. Both of these motions were granted on December 6, 1989. During this time an informal conference was held on November 21, 1989, to discuss the nature and format of the information to be filed. All parties were present at the conference except MCI. Finally, per the Commission's Order dated March 7, 1990, GTE South filed additional information including another cost-of-service study on April 4, 1990. After reviewing this information, the Commission has determined that additional information and significant modifications to the study would be required to determine an appropriate interLATA revenue requirement. However, for the reasons described herein, the Commission is terminating this investigation.

GTE South has used the Federal Communications Commission's ("FCC") jurisdictional separations procedures contained in Part 36 of the FCC's Rules and Regulations to determine the revenue requirement to be allocated to interLATA access services. This is consistent with the August 1, 1988 Order in Case No. 10171² that interLATA cost-of-service information and access charges should be based on relevant FCC rules and regulations. Although these study procedures are well documented, there were significant difficulties in attempting to analyze the first study filed by GTE South primarily because of poor formatting and

² Case No. 10171, The Tariff Application of GTE South Incorporated (Access Services), page 5.

inconsistent labelling. For example, allocation bases such as minutes-of-use and channel terminations were included in the same columns as investment dollars, which made it difficult, and in some instances, impossible, to distinguish between the two. It was possible to compare the total allocated amounts with data filed in Case Nos. 10117 and 10171; however, it was impossible to compare individual categories. Although the study filed in the instant case showed increases to overall costs, the costs allocated to interLATA access services had decreased. It was obvious that significant changes must have occurred to the allocation factors; however, the cause could not be determined. As a result of these difficulties, GTE South was required to file a copy of the cost study filed with the FCC that supported its latest interstate access filing and an intrastate cost study for the same time period as the interstate study. As these studies were more logically formatted and labelled, they were much easier to analyze than the previously filed study. The results were similar to the earlier version, in that overall costs had increased but the amount allocated to access services had decreased. However, it was now possible to isolate the areas in which significant changes had occurred in the allocation factors.

It was discovered that a major problem occurs with the allocation of non-traffic sensitive investments, which comprises nearly half of GTE South's total investments. A close review of the FCC's separations procedures has revealed that the interstate methods for allocating these investments are not readily

adaptable for interLATA allocations. Effective January 1, 1986, the FCC specified that 25 percent of non-traffic sensitive plant should be assigned to the interstate jurisdiction; however, this allocator is being phased-in through 1992. In the interim, a transitional allocator is in effect which is a hybrid of the previous allocator and the new flat 25 percent allocator. The previous allocator was the subscriber plant factor ("SPF"), frozen at 1981 usage levels, which is defined by the FCC in Part 36, Subsection 36.154(e) of its Rules and Regulations as follows:

(1) Annual average interstate subscriber line use (SLU), for the calendar year 1981,² representing the interstate use of the subscriber plant as measured by the ratio of interstate holding time minutes of use to total holding time minutes of use applicable to traffic originating and terminating in the study area, multiplied by .85, the nationwide ratio of subscriber plant costs assignable to the exchange operation per minute of exchange use to total subscriber plant cost per total minute of use of subscriber plant, plus,

(2) Twice the annual average interstate subscriber line use ratio for the study area for the calendar year 1981, multiplied by the annual average composite station rate ratio used for the calendar year 1981 (ratio of the nationwide, industry-wide average interstate initial 3-minute station charge at the study area average interstate length of haul to the nationwide, industry-wide average total toll initial 3-minute station charge at the nationwide average length of haul for all toll traffic for the total telephone industry.

² In the case of a company that cannot calculate the average interstate subscriber line usage (SLU) ratio for the calendar year 1981, the average interstate SLU for the customarily used 12-month study period ending in 1981 may be utilized. In the case of a company for which no such 1981 annual average SLU exists, the annual average interstate SLU for the initial study period will be utilized.

Clearly, considerable modifications must be made in translating this definition for interLATA use. First, LATAs were not created

until 1984, therefore it is doubtful that 1981 interLATA usage data exists. Secondly, the composite station rate ratio appears to reflect differences in an individual study area's average rate for an interstate call compared to the nationwide average, which is a concept that does not seem applicable on an intrastate basis. And finally, the FCC's transitional formulas were designed to phase-in a flat 25 percent allocator, which may not be appropriate for interLATA allocations.

GTE South has not identified the changes it made in adapting this definition for separating interLATA revenue requirements. Attempts were made to reproduce GTE South's allocator based on the data provided, without success. However, just as it was the FCC's responsibility to specify an allocator for interstate separations, it would also be the Commission's responsibility to specify a similar allocator to be used in interLATA allocations, rather than require the utilities to make substantial interpretations of the Commission's intent. In its Decision and Order in CC Docket 80-286,³ the FCC clearly struggled with the arbitrary nature of the non-traffic sensitive allocator, but ultimately concluded that a purely cost-based allocation of non-traffic sensitive plant between the jurisdictions would be extremely difficult to develop since the cost of the plant does not vary with usage and the costs that are attributable to either

³ CC Docket 80-286, Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, Decision and Order, Adopted December 1, 1983, released February 15, 1984.

jurisdiction cannot be identified. The FCC expressed its concern that:

[C]ontinued use of frozen percentage SPF or any other usage based allocation methodology will produce an irrational 'crazy quilt' pattern of access charges with substantially different interstate NTS allocations, and, therefore, different flat fee subscriber access charges in areas with identical NTS costs. In fact, such an allocation methodology could result in high subscriber access charges even in areas with low costs if the interstate relative use is sufficiently high . . . A usage based allocation methodology which was not based on historical usage levels could also result in significant growth in the interstate allocation if the interstate toll rate reductions accompanying implementation of the access charge plan result in a significant increase in interstate relative use, as expected. This would be contrary to the goal of ensuring a relatively stable interstate allocation . . . For these reasons, continued use of frozen SPF for a substantial number of years or the application of any usage based NTS allocation methodology would produce undesirable results and must be rejected.⁴

The FCC eventually selected the 25 percent allocator as it approximated the nationwide average subscriber plant factor, although it noted that the actual subscriber plant factor was between 26 and 27 percent. As the FCC combined the basic 25 percent allocation with additional interstate allocations for high cost areas, it believed the total non-traffic sensitive allocator would approximate the nationwide average subscriber plant factor.

The Commission shares some of the FCC's concerns with respect to the allocation stability of non-traffic sensitive plant when such plant is allocated on the basis of usage. However, a flat 25 percent allocation of non-traffic sensitive

⁴ Ibid, paragraph 10.

costs to intrastate access services could result in unreasonably high access rates. Therefore, the Commission will modify its access charge rules to omit the 25 percent allocator and its associated transitional formulas. It may be more reasonable to develop a flat allocator for use on an interLATA basis; however, selection of such a factor would require more evidence than is currently available to the Commission.

Additional modifications to the interstate separations procedures are also required because some components of the subscriber plant factor are subject to wide differences in interpretation. The subscriber plant factor should be calculated using study period subscriber line usage and in the absence of any data to support an average intrastate composite station rate ratio,⁵ this ratio should be "1," which is the mathematical result of assuming the "study area" is the state of Kentucky and translating "nationwide" as "statewide" in the FCC's definition of this ratio.

These modifications would require GTE South to prepare a completely new separations study, as changes in plant allocations have a significant effect on the entire allocation process. However, for the reasons discussed below, GTE South is not required to prepare a new study at this time, and instead, the Commission is terminating this proceeding.

⁵ Again, it is doubtful that this ratio has any meaning on an intrastate basis, but if a carrier wishes to propose one, it may do so.

The primary reason is the length of time between GTE South's test year in its last general rate proceeding and the probable implementation date of a new interLATA tariff, if any. As previously indicated, the Commission's intent was to obtain an interLATA revenue requirement subject to the criteria that total revenues should not exceed the total revenue requirement authorized in Case No. 10117. As this revenue requirement reflected a November 1986 to October 1987 test period, it would be of doubtful validity to adjust current revenues to the revenue requirement obtained from this period in view of the considerable lapse of time, which could easily exceed four years from the beginning of the test period.

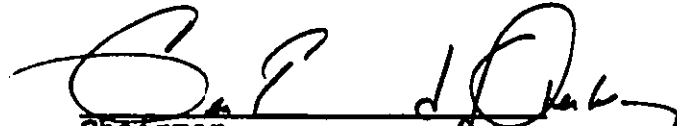
In addition, the Commission's recent decision in Administrative Case No. 323 that a prima facie case exists that intraLATA competition is in the public interest, may eventually require a complete review of access charge structures, including revenue requirements. The Joint Motion filed in that proceeding, of which GTE South is a signatory, proposes significant changes in these areas.

Having considered the record of evidence and being otherwise sufficiently advised, the Commission HEREBY ORDERS that:

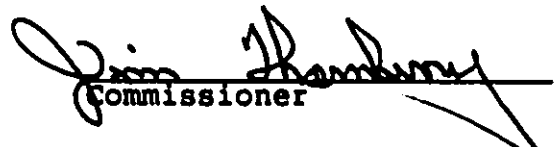
1. Future interLATA cost-of-service studies should reflect the allocation modifications described in this Order.
2. This proceeding shall be closed.

Done at Frankfort, Kentucky, this 6th day of September, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director